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RECORD OF ORAL HEARING

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE BOARD OF PATENT APPEALS
AND INTERFERENCES

Ex parte STEVEN M. BLOOM, MICHAEL S. SPECTOR, and
JOHN L. JACOBS

Appeal No. 2009-010984
Application No. 10/001,900
Technology Center 3690

Oral Hearing Held: January 7, 2010

Before HUBERT C. LORIN, ANTON W. FETTING, and
BIBHU R. MOHANTY, *Administrative Patent Judges.*

ON BEHALF OF THE APPELLANT:

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The above-entitled matter came on for hearing on Thursday, January 7, 2009, commencing at 1:00pm., at the U.S. Patent and Trademark Office, 600 Dulany Street, Alexandria, Virginia, before Paula Lowery, Notary Public.

THE CLERK: Good morning. Calendar Number 8, Mr. Maloney.

JUDGE LORIN: Good afternoon, Counsel.

MR. MALONEY: Good afternoon. Mr. Denis Maloney. I'm here for hearing on 010984.

JUDGE LORIN: Counsel, could you spell your name, please?

MR. MALONEY: M-a-l-o-n-e-y, first name Denis with one "n".

JUDGE LORIN: Thank you, Counsel.

The panel today consists of Judge Fetting, F-e-t-t-i-n-g, Judge Mohanty, M-o-h-a-n-t-y, and I'm the presiding judge, Judge Lorin, L-o-r-i-n.

We've reviewed the record in Appeal No. 2009-010984. You have 20 minutes. You may proceed.

MR. MALONEY: Thank you. In this appeal there are two issues remaining. One is a 112 second paragraph issue, and there's a prior art issue. I'd like to deal with the prior art issue first; and, if time permits, deal with the 112 issue.

JUDGE LORIN: That's fine.

MR. MALONEY: The Examiner has cited two references: Gastineau, which is a published U.S. application that I happen to have written for the American Stock Exchange; and a reference from a trade publication by Strauss. Gastineau is cited for the first feature of Claim 1, namely the feature of a recording by a computer, delivery by a market participant to an agent for a first fund of a creation unit basket of securities, having a creation unit

basis that is substantially the same as the creation unit basis for a second fund that's traded on a second marketplace in a second, different country than that of the first fund. So that, in fact, is not at all suggested, much less described, in Gastineau. What Gastineau describes in Paragraphs 1 through 4, which is where it's relied upon by the Examiner, is what's called a spider. That is a depository receipt that's based upon the S&P 500 Index. That particular spider is traded in the United States on the American Stock Exchange. It's based on a trust that's in the United States, uses a United States based index, the S&P 500 Index, and has a net asset value that's calculated after the close of trading in New York. Our position is that Gastineau only describes the second fund that's in Claim 1. Gastineau does not describe a first fund as a creation unit basis the same as the basis of the second fund. So, in essence, this invention would allow the S&P 500 spider to be also traded in Europe, for example, and have those shares that are traded in Europe be arbitragable to shares that are traded in New York. It's accomplished by two mechanisms, one of which is recited in Claim 1, the other of which is recited in Claim 2. We actually have a patent that's already been cited to the Examiner in this case on that particular feature. What this particular patent application, as well as the application at the second hearing today, is really discussing is how you handle cash that has to be exchanged to make the basket of securities correspond to the net asset value of the bulk of the shares that are created when you go through a creation or redemption of this type of product. Traditionally, as described in Strauss, cash is simply exchanged to make up for these little differences. However, in this particular case, as well as the other case, rather than

exchanging cash, the agent, if you will, can exchange with the participant shares in the second fund.

In other words, the fund that is not being created but the fund that has already been created that the first fund is trying to emulate. In the other case, which I will get to later, that's been expanded a little bit.

But Strauss, which has been cited for that particular teaching, does not have, in fact, this concept. Rather than exchanging cash, you exchange the shares from the second fund. Are there any questions so far?

JUDGE LORIN: No, not yet, Counsel.

MR. MALONEY: So that is, in essence, the significant features of Claim 1.

JUDGE LORIN: Okay, Counsel, let me stop you. I understand your position regarding the difference between what's claimed in Claim 1 and what's in the prior art. Do you want to speak to the Examiner's discussion about nonfunctional descriptive material?

MR. MALONEY: Sure. That kind of gets to -- I'm not aware of any case law that supports a rejection on nonfunctional descriptive material and ignoring these types of recitations under 112 second paragraph.

It seems to me that was something that was argued by the Examiner in In re Lowery under a 101 rejection, which the Board found that case dismissed. The Board then just tried to apply -- it was called a printed mater rejection to that type of language, and the Federal Circuit reversed the Board on that matter. So I'm not aware of any cases in which a 112 second paragraph is used to ignore so-called nonfunctional descriptive material.

JUDGE LORIN: Counsel, let me stop you for a second.

MR. MALONEY: Sure.

JUDGE LORIN: We've been discussing the prior art rejection of 103.

MR. MALONEY: Right.
JUDGE LORIN: I understand your position about the differences between what you've claimed and what's in the prior art.
MR. MALONEY: Right.
JUDGE LORIN: But the Examiner responded to your argument about those differences -- under 103, not the 112 -- that that limitation involving this cash, using the shares of the second fund in lieu of cash, that that amounted to nonfunctional descriptive material.
MR. MALONEY: First of all, that was the first time we ever heard the Examiner say that, number one. More importantly, it seems to me that if we go back and look at the 112 second paragraph rejection, the Examiner is making exactly the opposite contentions in that the Examiner is asking us in the 112 second paragraph rejection to set forth in the claims why and when a cash amount would be owed, how the cash amount would be owed, and how it's calculated. So on the one hand when he talks about 112, he wants those limitations in the claim -- I'm sorry, she wants those limitations in the claim; but when we're talking about 103, she wants to ignore those type of limitations. She can't have it both ways.
JUDGE LORIN: Counsel, the problem here is one of claim construction. Setting aside the 112 second, setting that aside -- I know you'll get to that later.
MR. MALONEY: Right.
JUDGE LORIN: Under 103 what you have here is a method and two steps. Both steps involve recording by the computer.
MR. MALONEY: Right.

JUDGE LORIN: I think what the Examiner is saying is all you have here is recording two events. That the computer is recording two events.

MR. MALONEY: Right.

JUDGE LORIN: Those events are represented by information, and from the Examiner's point of view, you're recording information about particular events by the computer. That distinction in terms of the information between what you're recording and the information recorded by the computer in the prior art, that distinction is nonfunctional descriptive material.

MR. MALONEY: Okay. Well --

JUDGE LORIN: The Examiner is asking what is the difference between the information you're recording by the computer and information the prior art is recording?

MR. MALONEY: That did not come through, but I'm glad you explained that to me. I can answer that quite succinctly. The difference between what Gastineau and Strauss would be recording and what Claim 1 is recording is that Claim 1 is reciting the two steps that are necessary to actually produce these shares in this new type of fund. So in the securities industry, all these so-called transactions involve data manipulation and recordation done by computers. This is exactly how this particular fund is produced. In other words, someone will deliver a basket of securities to an agent, and generally that basket is delivered via messages on a computer. The computer in Claim 1 records the receipt of this basket of securities and records the amount of cash that needs to be determined in order to make those securities, along with the shares that are going to be issued in the first fund, equate to the asset value of that first fund.

So that is exactly how these instruments are produced.
JUDGE LORIN: So if I understand you --
MR. MALONEY: And those are all functional limitations. We're not talking about music. We're not talking about, you know, a book. We're talking about data that's manipulated by a computer to produce something. To transform, if you will, this message that has a creation-unit basis securities plus cash into a set of shares of a first fund that has a particular relationship with a second fund.
JUDGE LORIN: Counsel, my understanding of this claim is that you have two steps of a computer recording an event.
MR. MALONEY: Right.
JUDGE LORIN: If I understand you correctly, your position is that these events necessarily must occur before the computer can record them, is that correct?
MR. MALONEY: These events occur before the computer records them. I believe that's correct, sure. So, for example, if you're saying received delivery of a basket of securities, well, we could add more steps to this claim; but it doesn't change the scope of the claim. It maybe obfuscates a little bit what the invention is. One of the things the Examiner was complaining about had to do with this calculation of net asset value. You know, the problem with adding that into the claim is that the net asset value of these funds would not necessarily be calculated by the person who was making these instruments. So if we would add that limitation into some of these claims, we would have a situation where you would need to have two different people perform these steps in order for the claim to be infringed. There'd be no direct infringer.

JUDGE LORIN: That's a separate argument that comes up in some of the dependent claims. My concern only is the way this claim is construed.

MR. MALONEY: Okay.

JUDGE LORIN: I see the Examiner construing this claim as simply a computer recording some information, but I think your argument -- and that does come out in the Reply Brief -- is that you're recording an event that must necessarily occur. If the prior art doesn't show that event, then the computer cannot record it.

MR. MALONEY: That's correct.

JUDGE LORIN: That's a little different than what the Examiner seems to be arguing. That it doesn't matter what the event is, the event is represented by information, and the computer is recording it. So this is really a question of claim construction. You're construing the claim in a certain way that requires delivery of the securities and a return of securities for the cash. That is not shown in the prior art.

MR. MALONEY: That is correct. So putting it another way, if the creation unit of securities was, in fact, not delivered in a message to the computer, there'd be nothing to record. The computer is still going to go through a determination to record -- to determine the amount of cash, and record the fact that no cash will be exchanged if it turns out those securities exactly equate to the net asset value of the fund. So even though what might be recorded in some rare instances is zero, that is still going to be recorded. Then if we get to Claim 2, we actually have the step of calculating by the computer system the amount of cash needed to be exchanged between the agent and participant had those funds equated to the net asset value of the second fund at the close of trading. So this gets into two other aspects, if you

will, of this invention. That is -- actually, one additional aspect of the invention. That is the net asset value of a second fund governs the net asset value of the first fund. So, you know, that completely makes this thing arbitragable. In other words, what happened in the original application that's now issued into a patent is you had this concept of a financial product. You could have the S&P 500 spider being traded in Europe, but rather than the net asset value of that spider being calculated after the European markets close, it would be calculated after the U.S. markets close, which is when the value of the original spider is being calculated. That means that both those things can be arbitraged against each other. So if you find that the spider in Europe is trading at a lower value than the spider in the United States, you can sell the spider in the United States and buy the spider in Europe while those markets are open. Knowing that at the end of the day they will zero out because the calculations will be done at the same time.

You couldn't do that if the European spider was being -- if the net asset value of the European spider was being calculated after the European markets close. So with respect to Claim 2, Claim 2 has the step of calculating in there, which is clearly not a recording step. It further defines the second step of Claim 1, but the Examiner still had not shown any propensity to want to allow even that claim.

JUDGE LORIN: Thank you, Counsel. Would you like to speak a moment on the 112 rejection?

MR. MALONEY: The 112 rejection -- I found it rather difficult to really follow the Examiner. In many cases the Examiner is just asking us to throw willy-nilly into the claims limitations which either do not belong in the claims or make the claims extremely narrow. Narrower than we feel are

required. For example, getting back to this idea of recording, the Examiner talks about the recording step as a conclusion. We don't view that as a conclusion. We view that as a positive step that has to be executed by the method, for example, in Claim 1; or, conversely, by instructions that are the subject of the computer program claims. The Examiner has an issue with respect for an amount of cash owned. The Examiner again discusses when and why cash would be owed. Again, those things are all described in the specification and is the subject of some of the pending claims, but it's not really needed to distinguish these claims over the prior art. Because, clearly, when you look at Strauss, Strauss doesn't handle cash in the way that Claim 1 handles cash. Therefore, what we recite in Claim 1 should be sufficient. The real question comes with respect to 112 second paragraph is whether a person skilled in the financial arts could understand what is being claimed in Claim 1. I submit there would be no problem understanding what is being claimed in Claim 1 without looking at the specification. The Examiner complains about the phrase "substantially the same basis," specifically about the word “substantially.” In our view the word “substantially” lends a degree of tolerance to the features in order to prevent inconsequential changes to the basket of securities in order to avoid literal infringement.

I believe, you know, these tolerances -- where these tolerances would lie would easily be ascertained by the prospectuses for each particular product. For example, when you look at a prospectus for the S&P 500 spider, when they discuss delivering a basket of securities, they allow for small, minor variations in those baskets, as does many other indices because sometimes all the instruments in those baskets may not necessarily be available.

Also, the other factor which is described in the specification is that since the whole point of these inventions is to make these two funds arbitragable, you really could not vary the basis of the creation unit for the first fund to the point where it would no longer be arbitragable against the second fund. There are many other things here, like net asset value. The Examiner complains about "the net asset value". My position is that these funds have but one net asset value per day, and it makes no sense to talk about a net asset value. I think it would make it more confusing.

JUDGE LORIN: Okay. Counsel, any further remarks?

MR. MALONEY: Not on this one. I have the other one at 1:30, so do you want me to call you back?

JUDGE LORIN: I'd like that. Counsel, there is one more question.

JUDGE MOHANTY: I have a question about Claim 1. Your preamble is drawn to a method of producing shares of a first fund.

MR. MALONEY: Right.

JUDGE MOHANTY: Where is that exactly in the claim? I see recording and recording. Is the creation unit basket something that --

MR. MALONEY: Yeah, the way the shares are produced are recording delivery of the shares in the first fund with the shares in the second fund to account for the cash. So once the agent's computer, if you will, records the delivery of these shares, again in a message, along with the shares in the second fund; that, in effect, is the product. You know, it's a data structure residing in the computer of the agent that says we delivered a creation unit basis of shares in this first fund to that particular market participant, and we delivered them a number of shares in a second fund to account for the cash that we owed them.

JUDGE MOHANTY: So the shares are actually produced by the delivery into some computer storage?

MR. MALONEY: Yeah, basically, that second step, if you will, of Claim 1. The first step of Claim 1 involves receipt of the creation unit basket of securities, and then there's the intermediate step, if you will, which is actually Claim 2, which talks about figuring out the amount of cash that's owed. Once you get the securities and amount of cash and convert that cash into shares of the second fund and you record that fact, that is, in effect, the product as far as the agent is concerned. They would send a message out to the market participant's computer saying they now have 50,000 shares of the European spider, for example. The essence of this invention is captured in those two steps.

JUDGE LORIN: No further questions.

MR. MALONEY: Shall I call you back at 1:30?

JUDGE LORIN: Yes, sir.

MR. MALONEY: Thank you.

Whereupon, the proceedings at 1:25 p.m. were concluded.